BRANIFF AIRWAYS, INCORPORATED ANNUAL REPORT 1966

BRANIFF INTERNATIONAL

1. Set new records in most financial and traffic categories.
2. Consummated $60 million in long-term financing.
3. Negotiated purchase of Pan American-Grace Airways and its merger with Braniff.
4. Placed 16 new jets in service.
5. Retired all piston aircraft except six Convair 340s.
6. Inaugurated entirely new non-stop air service on nine major routes within the United States.
7. Began non-stop service New York-Lima, New York-Panama, New York-Bogota, Miami-Lima.
8. Initiated contract flights for the Military Airlift Command to the Atlantic, Caribbean and Pacific.
9. Launched a brand new domestic air cargo service with the 727QC (quick change) jet and international cargo service with the 320C.
10. Ordered three 1400 mph Concordes supplementing delivery positions for two Boeing supersonic aircraft.
11. Announced $10 million in construction of new Dallas facilities, including a new 13-gate terminal, hostess college and cargo building.
12. Organized the Board of International Chefs to advise on menus.
13. Planned the largest promotion campaign ever undertaken to promote travel between North and South America.
14. Introduced an international travel credit system called Fastcharge.
15. Contracted for the most advanced electronics reservations system in the airline industry.

HIGHLIGHTS OF 1966

	1966	1965	PERCENT CHANGE	
FINANCIAL				
Total Operating Revenues	$187,826,551	$129,265,455	+	45.30
Total Operating Expenses	163,403,880	115,502,136	+	41.47
Operating Income	24,422,671	13,763,319	+	77.45
Taxes and Interest and Other Nonoperating Items-net	7,572,338	4,949,820	+	52.98
Gain from Disposal of Equipment-net	965,985	634,867	+	52.16
Net Earnings	17,816,318	9,448,366	+	88.57
Earnings per Share[A]	$ 3.02	$ 1.60	+	88.57
Shares Outstanding[B]	5,896,238	2,948,119	+	100.00
OPERATING[C]				
Revenue Passenger Miles (000)	3,059,574	1,818,699	+	68.23
Available Seat Miles (000)	5,150,072	3,364,467	+	53.07
Passenger Load Factor[D]	56.10	53.95	+	2.15 pts.
Revenue Passengers Carried	4,689,862	3,385,156	+	38.54
Revenue Ton Miles (000)	365,586	214,387	+	70.53
Available Ton Miles (000)	696,815	435,212	+	60.11
Express and Freight Ton Miles	56,490,479	30,656,078	+	84.27
Mail Ton Miles	12,307,619	8,734,306	+	40.91
Revenue Miles	58,176,997	40,583,071	+	43.35

A Prior periods are adjusted for comparison with 1966 outstanding shares.
B The increase in the number of shares outstanding is due to a two-for-one stock split on May 6, 1966.
C Includes military contract services in 1966 statistics.
D Computed on scheduled service only.

RESULTS IN BRIEF

Record revenues and traffic, a continued uptrend in profits, more jets, a new cargo service, military contract operations, approval of a merger, all were highlights of a notable year of progress for Braniff International.

The 1966 net income of $17.8 million exceeded the previous three years combined and was an increase of 88% over the preceeding year's $9.5 million. Earnings per share were $3.02 compared to $1.60 per share for 1965. Total system operating revenues of $187.8 million were 45% over the $129.3 million of 1965 and 71% over those of 1964.

Passenger revenues were up 36.6% to $156.8 million, express and freight revenues up 20.2% to $9.97 million, and mail revenues up 26.1% to $4.5 million. Charter and contract services provided $14 million in revenues. Total operating expenses of $163 million were 41.5% over the 1965 total of $115.5 million.

In terms of traffic, revenue passenger miles were up 68.2% to 3.1 billion compared to 1.8 billion in 1965 and 1.5 billion in 1964. This more than kept pace with the large 54% increase in available seat miles to 5.2 billion compared to 3.3 billion last year and 2.9 billion in 1964. Some 4.7 million passengers flew with Braniff this past year, an increase of 39% from the 3.4 million of last year and 63% over the 2.9 million of 1964.

In connection with this report, these points perhaps will be of particular interest:

—In December 1966, Braniff successfully completed a $60 million public sale of debentures with warrants attached to provide long-term financing of purchases of aircraft and the outstanding common stock of Pan American-Grace Airways.

—In April 1966, the shareholders approved a two-for-one stock split effective May 6, 1966.

—As to our jet equipment program, we placed 16 new jets in service during 1966 and phased out all but six piston aircraft. Twenty-two more jets will be received during 1967 and we will have a totally turbine-powered operation by fall. The new jets have already permitted important new domestic and international schedules and the launching of a brand new cargo service. (see Aircraft and New Services).

—As to routes—while there were no important commercial route awards to Braniff in 1966, we are an applicant in a number of cases which have progressed through various procedural steps in the past year (see New Route Proceedings). However, Braniff commenced Pacific operations for the Military Airlift Command in June of 1966 and Atlantic and Caribbean operations in July. The brightly painted jets have been seen regularly in Hawaii, Japan, the Philippines, Okinawa, South Viet Nam, Thailand, Newfoundland, Greenland, Iceland, Puerto Rico, to name some of the major places. In January this year, the Atlantic MAC service was extended to Great Britain and Germany. In its commercial or military service, Braniff now has an operation touching every continent except Africa and Australia.

—In terms of expansion, in October Braniff received the approval of the President of the United States and the Civil Aeronautics Board of its $30 million purchase of Pan American-Grace Airways and merger of the South American operations of Panagra with those of Braniff. The purchase was completed on January 19 of this year and combined operations of the merged companies began February 1 (see Panagra Merger).

—In terms of facility expansion, we have announced a $10-million building program in the Dallas area.

TO STOCKHOLDERS, CUSTOMERS AND EMPLOYEES

This includes a new 13-gate terminal facility in cooperation with the City of Dallas, our first hostess college, and a new automated cargo building. In New York, we have leased the entire 10th floor of the Chrysler Building and this becomes the eastern regional headquarters for Braniff. In South America the process of integrating Braniff and Panagra facilities is proceeding on schedule. In Lima, Peru, for example, administrative offices have been combined in a new building just completed by Panagra at the international airport. In downtown Buenos Aires, administrative headquarters and ticket office facilities are located in a new high-rise condominium-type office building.

—To best utilize our management, during 1966 we commissioned an extensive study to determine the organization structure with which we could continue our growth program for the next five years. Put into effect February 1, 1967, the new organization structure provides planning units to support each department and a stronger management for each area of the world we serve headed by a regional vice president. A listing of the corporate officers and of the staff and regional vice presidents is found elsewhere in this report.

With our growth program showing good results in terms of revenues and traffic, our transition to an all-turbine fleet in sight, speeded up passenger handling instituted and further innovations planned, a streamlined management organization adopted, the company is now focusing on cost control and cost improvement.

In this connection, since Braniff was late in commencing its transition to a full turbine fleet, it has not yet had time to achieve the low break-even load factor, seat mile and ton mile costs that some other carriers in the industry are experiencing.

The years 1965 and 1966 benefited from jet replacement of pistons, but important economies are still ahead as the large investments in new equipment, training, and facilities reduce unit costs. Ton mile costs, which were 26.5¢ in 1965 and 23.5¢ in 1966, should continue to decline.

The new aircraft being delivered this year will enable us to increase our average length of haul which will have a desirable effect also on unit operating costs. By the middle of the year we will take over the maintenance of the DC-8s operated in South America and formerly owned by Panagra. These are currently maintained and overhauled by Pan American. Delivery of the DC-8-62s during the summer will enable us to effect further economies on the South American runs and allow us to bring the Boeing 320Cs into domestic service.

The prospect of lower unit costs; additional capacity and potential new service as more jets are delivered and placed in service; the completion of the integration of Braniff and Panagra in South America with its attendant economies; a full year of expanded military contract operations in the Pacific and Atlantic; development of the cargo business as further lift is added; and a continued improvement in the productivity of the 10,000 members of the Braniff family, all would indicate the year ahead should be one in which Braniff's rate of growth will continue to exceed the airline industry average.

TROY V. POST, Chairman of the Board

HARDING L. LAWRENCE, President

PANAGRA HOSTESS

BRANIFF INTERNATIONAL HOSTESS

BRANIFF INTERNATIONAL 320C

. . . a level of one carrier service not possible before
— 30 round trip flights a week between the Americas

PANAGRA DC-8

On January 19, 1967, we completed the $30 million purchase of one of the leading U.S. flag airlines operating in South America, Pan American-Grace Airways (Panagra), from its two owners, W. R. Grace & Co. and Pan American World Airways. On February 1, we merged the South American operations of Panagra into Braniff and began combined service under the Braniff International name.

It is our belief that this event will provide the greatest stimulus to the development of air transportation between North and South America since the advent of jet service.

The two airlines will be quickly integrated and there are several immediate benefits for those planning travel for business or pleasure between the Americas.

Where each airline had flights at almost similar departure times, we were able to re-schedule these flights with the result that we have a much wider selection of daily departure and arrival times.

Each airline had a limited weekly schedule to, from and within South America. We are now able to provide a level of one-carrier service not possible before—30 round trip flights a week between the two continents.

With the cooperation of our interchange partners, through plane passengers now can utilize five gateways for the first time—New York, Miami, Houston, Los Angeles, and San Francisco.

The combined U.S. flag carrier now serves Brazil, Chile and Paraguay within the same system for the first time, plus the six major South American nations the two airlines both served individually before.

Also for the first time non-stop service Santiago-Miami and Guayaquil-Miami was inaugurated. Besides improving our new passenger service, with the cooperation of our interchange partners, we were able to expand our cargo schedule to seven round trip flights a week from New York or Miami utilizing DC-8F jet freighters and Boeing 320C intercontinental passenger-cargo jets. This more than tripled our international cargo capacity.

The merger of the airlines also justifies investing a substantial sum in route development in terms of promotion, personnel and facilities in each nation. In Lima, for example, we will now proceed with construction of three needed new tourism facilities—a restaurant night club, a beach club and an international market—requiring an investment of $1 million. To support the combined schedules, Braniff will invest some $4.7 million to promote travel between the two continents, probably more than all other sources together, and double Braniff's own campaign in 1966.

Finally, it is perhaps of interest to point out that the Panagra merger was the second step in our program to strengthen Braniff in South America, the first being the initiation of non-stop service from New York in April 1966. The third step will be the resolution of the United States-Caribbean-South America route case in which Braniff seeks to operate in its own right between South American cities and New York, New Orleans and Los Angeles/San Francisco. That case is awaiting Civil Aeronautics Board decision.

We fully expect that the combination of the 1300 employees of Panagra, undoubtedly one of the most experienced airline groups in South America, with Braniff's 8700 employees on both continents will result in a professional competence beyond the capabilities of either airline.

BRANIFF / PANAGRA MERGER

BRANIFF JET POWERED FLEET

	October '67	April '65
BAC One-11	13	0
Boeing 707/720	9	10
Boeing 727	6	0
Boeing 727 QC	18	0
Boeing 320C	9	0
Douglas DC-8-30	3	0
Douglas DC-8-62	4	0
Douglas DC-8-62-F	1	0
Lockheed Electra II	10	9
Total	73	19

BOEING 727 QC CONVERTIBLE JET

NEWLY DESIGNED GROUND EQUIPMENT PROVIDES RAPID HANDLING OF CARGO SHIPMENTS

BOEING 320C INTERCONTINENTAL

A complete modernization of Braniff International's fleet has been substantially achieved as 11 Boeing 727 tri-jets and 5 Boeing 320C intercontinental jets were placed in service during the year. All but six piston aircraft have been retired and we now provide 98 percent of our available seat miles with jet-powered equipment.

New jet aircraft will continue to be delivered at the rate of one every two weeks in 1967, including four Boeing 320Cs and thirteen 727s, the five DC-8-62s which Panagra had on order plus four DC-8s which were acquired in connection with the purchase of Panagra.

Compared to the 19 turbine aircraft Braniff had in April 1965, we will have 73 turbine aircraft by October this year and all piston planes will have been phased out of service. Put another way, on April 1, 1965, we were operating turbine equipment, including spares, valued at $51 million; on October 31, 1967 this will be $313 million.

The new equipment has permitted not only added schedule frequencies throughout most of our domestic system and to Mexico City and Acapulco, but also entirely new non-stop service Oklahoma-New York, Memphis-New York, Houston-Denver, Houston-Oklahoma City, Houston-Kansas City, Chicago-Wichita, Chicago-San Antonio, Minneapolis-St. Louis, Omaha-St. Louis, New York-Lima, New York-Bogota, New York-Panama and Miami-Lima (the New York international service is in cooperation with Eastern Airlines).

As additional planes come to us this year, you can anticipate hearing of other new service. In fact on March 15 we will: (1) almost double non-stop service between Dallas and New York with five daily non-stops to Kennedy International Airport and six daily non-stops to Dallas; (2) double the direct one-stop service between Dallas and Newark with four daily round trip flights; (3) inaugurate daily non-stop round trip service between Nashville and New York.

Eighteen of the 24 Boeing 727s which Braniff has received or has on order are "QC" or "Quick Change" versions and through newly devised engineering on the aircraft and ground support equipment can be converted to all-passenger, all-cargo or combination passenger-cargo configurations in only 30 minutes.

This permits greater aircraft utilization and a more rapid expansion of both cargo and passenger capacity and service than if separate aircraft were used for each.

Braniff began the world's first "QC" jet cargo operation last August between Chicago, Dallas and San Antonio and later expanded it to include cargo jet service between New York, Washington, Nashville, Memphis, Dallas and Houston. Since then non-stop Dallas-New York service has been inaugurated. Additional jet cargo flights will begin to other cities as more aircraft are delivered. For example, on March 15 we will begin jet cargo service on the Chicago-Kansas City-Dallas route.

The large 320C intercontinental jets which Braniff is receiving also are convertible passenger-cargo aircraft. They were inaugurated into service between the U.S. and South America last October in a configuration capable of carrying 104 passengers and 33,000 pounds of cargo.

With the new cargo aircraft too, Braniff announced a Reserved Air Freight system (BRAF) which permits both domestic and international shippers to reserve cargo space just as they would reserve seats for their own personal travel.

Looking beyond the immediate deliveries of subsonic aircraft scheduled for us this year, we are studying requirements for the Boeing 747 jumbo jet for high density long-haul segments and in view of possible route awards.

Even further ahead in regard to our fleet mix of the 1970s, we have ordered three Concordes. These are planned as 1400 mile-per-hour aircraft seating 124-130 passengers. Braniff also has two delivery positions reserved for the 1800 mile-per-hour Boeing supersonic.

AIRCRAFT · NEW SERVICES

HOSTESS AIR STRIP—PART II

INNOVATIONS IN HOT HORS D'OEUVRES INCLUDING CONCHITAS AND ANTICUCHOS

BRANIFF BOARD OF INTERNATIONAL CHEFS
ALEX CARDINI
ROGER PIAGET
WILLY ROSSEL
FELIX MEIER
FEDERICO BUECKER

DRIVE-IN TICKET FACILITY • DALLAS, TEXAS

While more schedules, new non-stops, all jet-powered equipment are vitally important, we are particularly proud of the new ideas, innovations and improvements in service to our customers. It is all part of our plan to make travel to a destination as exciting as the destination itself, or putting it another way—giving you better treatment on the ground and in the air than you have been getting.

We speeded up the boarding process with the: (1) "Fastpack" which came into widespread use for the first time. It's the simplest write-your-own ticket pack ever for frequent travelers. (2) "Fastcheck"—it's a permanent baggage tag for regular Braniff fliers. (3) "Fastcharge"—the almost instant trip charge plan which lets you put your trip on credit when you walk up to a Braniff ticket counter or travel agent—even one to South America—without any delay for a credit check. We bill you every 30 days adding a minor service fee if you want to program your payments. (4) An experimental drive-in ticket office in Dallas which works with two-way television to our agent. (5) We ordered the most advanced electronic reservations system, costing over $7 million, for installation in late 1968, meantime doubled our telephone lines and reservationists.

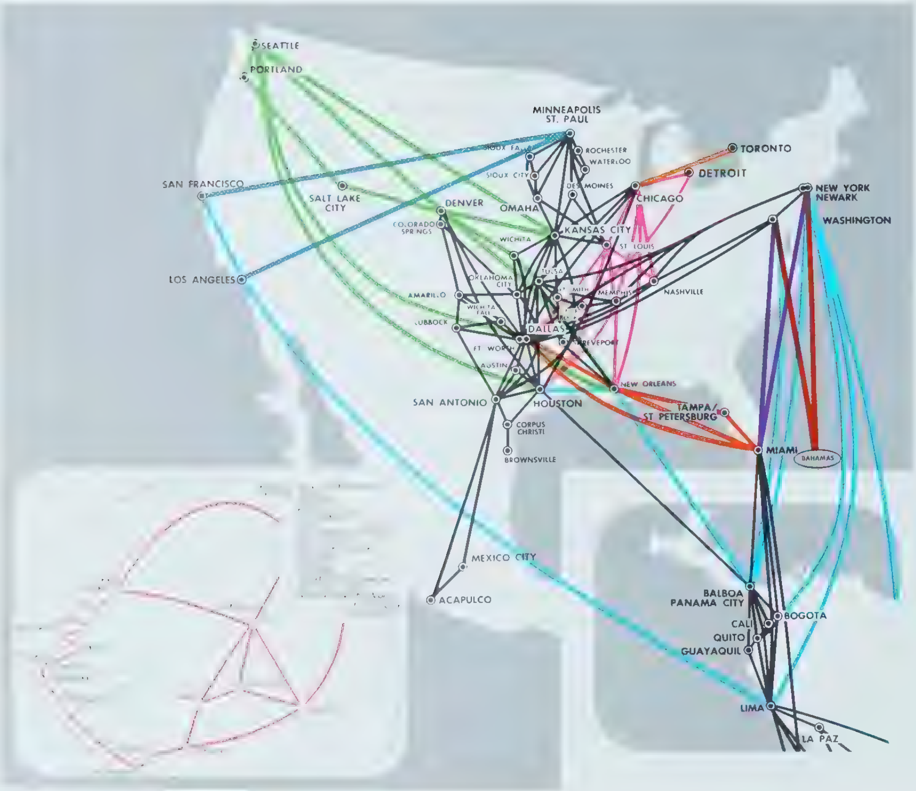
We made it more fun to fly with us, we believe, with "Air Strip Part II," Pucci's latest high fashions for our hostesses which brought us derby hats, print dresses, leotards, hooded fur parkas, made it possible for you to see up to six changes on any one flight.

We drastically changed our inflight service with: (1) Crystal, china and silverware in the coach section as well as first class. (2) New refreshments such as pisco sours from Peru and margaritas from Mexico. (3) A change from cold to hot hors d'oeuvres on long-haul domestic flights and introduction of new ones as Peruvian conchitas. (4) Organization of the Board of International Chefs to advise us on further menu ideas. The members: Felix Meier of La Fonda del Sol in New York, Alex Cardini of Cardini's in Mexico City, Roger Piaget of Le Pavillon in Lima, Federico Buecker of the German Club in Buenos Aires, and Willy Rossel as executive chef. (5) A six-cycle menu system which almost guarantees never getting the same meal twice on Braniff. (6) The Cappuccino to top off your dinner. It's equal parts of hot chocolate and coffee, plus a jigger of brandy. (7) New ideas as all-the-ribs-and-chicken you can eat.

We call it all the "Battle for Men's Stomachs" which, when added to our corps of "Time Police" watching on-time performance, we think is starting to add up to making the trip seem all too short.

And by the way, we're adding more colors to our jet fleet—bright green and bright red. It's all part of the fun.

CUSTOMER SERVICE



New routes have played a vital role in the growth o every airline. Braniff has had no route awards sinc 1955 except an extension beyond Mexico City to Aca pulco in December 1965 and the addition of thre cities to our South American routes as a result of th merger with Panagra. Therefore, your managemen is actively seeking additional routes. This is a statu report on those currently under investigation by th Civil Aeronautics Board.

1. UNITED STATES-CARIBBEAN-SOUTH AMERIC INVESTIGATION. Braniff seeks improved route acces with non-stop privileges from major U.S. gateways – New York, Miami, New Orleans and Los Angeles/Sa Francisco – to points served in South America. Wit the merger of Braniff and Panagra completed, promp disposition of this proceeding is expected. It is hope the Board's final decision will be rendered by the en of 1967.

2. PACIFIC NORTHWEST-SOUTHWEST SERVICE IN VESTIGATION. Braniff seeks to provide service betwee points in the Midwest, South and Southwest to Seattle Tacoma, Portland and Salt Lake City. The examiner' initial decision, rendered in June 1966, recommende the grant of Braniff's application in its entirety, togethe with awards to other carriers. Oral argument was hel before the Board in the fall of 1966 and the Board' decision is pending.

3. REOPENED SOUTHERN TRANSCONTINENTAL SERVICE CASE. In March 1966 the Board by a 2-2 vote refused to reconsider its order denying Braniff' application for a Dallas-Miami route. Braniff sought re view in the U.S. Court of Appeals where the case wa briefed and argued. On February 13, 1967, the Boar requested the Court to vacate the orders under re view and to remand the matter to the Board for con sideration in a new Southern Transcontinental Servic Case that will be initiated shortly involving air servic between Florida and Georgia to California with variou intermediate points, including Dallas/Ft. Worth an New Orleans. Braniff will be a vigorous participant.

4. CHICAGO-TORONTO ROUTE. Early in 1966, afte the signing of the U.S. – Canadian Bilateral Air Trans port Agreement, Braniff filed an application to extend

NEW ROUTE PR

ts routes beyond Chicago to Toronto. The Examiner's nitial decision in this proceeding recommended denial of Braniff's application. Braniff challenged this recommendation in briefs and in oral argument before the Board in the fall of 1966. A Board decision is pending.

5. REOPENED NEW YORK-FLORIDA RENEWAL CASE. Braniff's application for authority to serve Florida points on the one hand, and principal northeast cities on the other was denied by the Board in an opinion released March 3. However, the Board deferred decision on Braniff's application for local traffic rights between New York and Miami via Washington as part of possible through-plane service on international flights to and from South America. Deferral is to permit future consideration at the time the pending U.S.-Caribbean-South America Investigation is before the Board for decision.

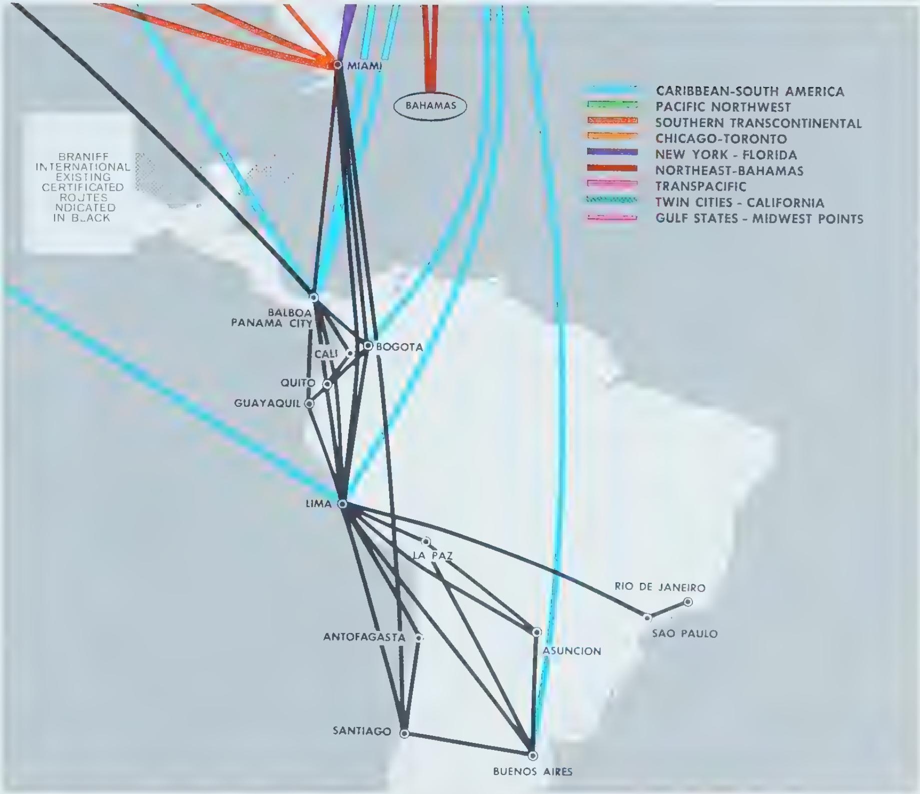
6. NORTHEAST-BAHAMAS SERVICE CASE. Braniff filed an application to provide service between cities n northeastern United States on the one hand, and the Bahamas on the other. Hearings have been concluded and briefs to the Examiner were filed February 20, 1967. The Examiner's decision is expected this year.

7. TRANSPACIFIC ROUTE INVESTIGATION. Braniff, one of eighteen applicants, is seeking authority to provide service between various cities on the mainland of the U.S. on the one hand and Hawaii, Oceania, Australia, New Zealand and the Orient. Hearings began n Honolulu February 15, 1967. The proceeding will probably require two to three years until final decision.

8. TWIN CITIES-CALIFORNIA SERVICE INVESTIGATION. In this case Braniff and others are seeking authority to provide service between Minneapolis/St. Paul and San Francisco/Los Angeles. Hearings are scheduled for June 1967.

9. GULF STATES-MIDWEST POINTS SERVICE INVESTIGATION. In the fall of 1966 the Board instituted an investigation of air service between various Gulf States cities and Midwest cities. The final scope of the investigation has not yet been determined nor have procedural dates been set by the Board.

CEEDINGS



	1966	1965	1964	1963	1962
Operating Revenues					
Passenger	$156,771,067	$114,729,807	$ 96,856,871	$ 87,440,628	$ 84,024,153
Military Contract Services	14,041,258				
Express and Freight	9,972,358	8,297,558	7,089,608	5,861,323	5,334,536
Mail	4,491,551	3,563,198	2,942,370	2,938,173	2,869,321
Other	2,550,317	2,674,892	2,807,763	2,235,856	2,225,071
Total	$187,826,551	$129,265,455	$109,696,612	$ 98,475,980	$ 94,453,081
Profit on Sale of Equipment After Taxes	$ 965,985	$ 634,867	$ 403,948	$ 16,800	$ 1,219,345
Net Income	17,816,318	9,448,366	5,970,625	1,258,836	2,428,677
Dividends Paid	1,474,060	294,812	294,812	737,030	442,217
Current Assets	$ 60,441,424	$ 29,405,765	$ 24,131,086	$ 21,552,728	$ 22,342,249
Current Liabilities	20,972,422	13,971,385	13,164,147	12,196,067	12,568,695
Net Working Capital	$ 39,469,002	$ 15,434,380	$ 10,966,939	$ 9,356,661	$ 9,773,554
Property and Equipment-net	$190,844,491	$ 95,794,960	$ 65,072,482	$ 67,346,063	$ 69,436,773
Total Assets	321,678,216	130,336,335	98,805,514	94,596,065	95,895,780
Long-Term Debt	204,752,754	51,105,000	29,600,000	32,774,997	35,741,665
Stockholders' Equity					
Common Stock Outstanding	$ 7,370,297	$ 7,370,297	$ 7,370,297	$ 7,370,297	$ 7,370,297
Capital Surplus	30,355,274	18,355,274	18,355,274	18,355,274	18,355,274
Retained Earnings	45,492,964	29,150,706	19,997,152	14,321,339	13,062,503
Total Stockholders' Equity	$ 83,218,535	$ 54,876,277	$ 45,722,723	$ 40,046,910	$ 38,788,074

FIVE YEAR REVIEW

CONCORDE SUPERSONIC TRANSPORT

	1966	1965	1964	1963	1962
Operations [A]					
Revenue Miles	58,176,997	40,583,071	36,414,662	34,424,063	34,343,368
Percentage of Schedules Completed [B]	96.46	98.49	98.10	98.61	98.01
Available Ton Miles (000)	696,815	435,212	390,106	361,064	334,455
Passengers [A]					
Revenue Passengers Carried	4,689,862	3,385,156	2,875,969	2,642,243	2,461,262
Revenue Passenger Miles (000)	3,059,574	1,818,701	1,543,925	1,385,403	1,281,950
Available Seat Miles (000)	5,150,072	3,364,467	2,882,314	2,606,484	2,411,556
Passenger Load Factor [B]	56.10	53.95	53.33	53.02	52.99
Air Mail					
Tons Carried	20,425	14,337	11,255	11,283	11,439
Ton Miles	12,307,619	8,734,306	6,906,309	6,905,927	6,812,635
Express and Freight [A]					
Tons Carried	53,192	42,831	35,217	29,664	29,784
Ton Miles	56,490,479	30,656,078	24,841,111	19,486,901	18,875,744

[A] Includes military contract services in 1966 statistics
[B] Computed on scheduled service only

FIVE YEAR REVIEW

BALANCE SHEET
ASSETS DECEMBER 31, 1966 & 1965

	DECEMBER 31 1966	DECEMBER 31 1965
CURRENT ASSETS:		
Cash	$ 3,434,493	$ 4,128,530
Temporary cash investments—at cost plus accrued interest	19,950,709	5,307,900
Accounts receivable, less reserve	28,236,560	14,810,005
Spare parts and materials and supplies—at average cost, less reserve	7,910,113	4,327,557
Prepaid expenses, etc.	909,549	831,773
Total current assets	60,441,424	29,405,765
SPECIAL FUNDS AND INVESTMENTS:		
Deposits on equipment purchase contracts	19,633,992	1,458,893
Funds and advance for investment in Pan American-Grace Airways, Inc. (Note 1)	30,000,000	
Other	357,768	332,824
Total special funds and investments	49,991,760	1,791,717
PROPERTY AND EQUIPMENT—At cost:		
Flight equipment	241,440,326	148,683,161
Other property and equipment	22,183,239	14,516,304
Total	263,623,565	163,199,465
Less reserve for depreciation	72,779,074	67,404,505
Property and equipment—net	190,844,491	95,794,960
DEFERRED CHARGES—Unamortized balances:		
Long-term debt discount and expense (Note 4)	13,647,088	534,925
Developmental and fleet preoperating costs	4,764,330	639,758
Long-term prepayments	1,429,329	1,675,213
Other	559,794	493,997
Total deferred charges	20,400,541	3,343,893
TOTAL	$321,678,216	$130,336,335

The accompanying Notes to Financial Statements are an integral part of this statement

BRANIFF AIRWAYS, INCORPORATED
LIABILITIES

	DECEMBER 31 1966	1965
CURRENT LIABILITIES:		
Accounts payable	$ 13,046,683	$ 8,618,898
Unused transportation	2,388,675	2,483,806
Air travel plan deposits	763,725	753,950
Income taxes payable	720,475	1,161,578
Other current liabilities	4,052,864	953,153
Total current liabilities	20,972,422	13,971,385
LONG-TERM DEBT (Note 2)	204,752,754	51,105,000
DEFERRED CREDITS:		
Deferred Federal income taxes	12,357,785	10,052,785
Other	376,720	330,888
Total deferred credits	12,734,505	10,383,673
STOCKHOLDERS' EQUITY:		
Common stock—at December 31, 1966—authorized, 10,000,000 shares of $1.25 par value; issued and outstanding, 5,896,238 shares (Note 3)	7,370,297	7,370,297
Capital surplus (Note 4)	30,355,274	18,355,274
Retained earnings (Note 2)	45,492,964	29,150,706
Total stockholders' equity	83,218,535	54,876,277
TOTAL	$321,678,216	$130,336,335

The accompanying Notes to Financial Statements are an integral part of this statement

STATEMENT OF INCOME AND RETAINED EARNINGS

FOR YEARS ENDED DECEMBER 31, 1966 AND 1965 **BRANIFF AIRWAYS, INCORPORATED**

	YEAR ENDED DECEMBER 31 1966	1965
OPERATING REVENUES:		
Passenger	$156,771,067	$114,729,807
Military contract services	14,041,258	
Express and freight	9,972,358	8,297,558
Mail	4,491,551	3,563,198
Other	2,550,317	2,674,892
Total	187,826,551	129,265,455
OPERATING EXPENSES:		
Flying and ground operations	89,175,466	63,123,743
Maintenance	28,501,579	21,760,721
Sales and advertising	23,383,146	15,544,794
Depreciation and amortization, less amounts charged to other accounts	15,079,037	10,014,153
General and administrative	7,264,652	5,058,725
Total	163,403,880	115,502,136
OPERATING INCOME	24,422,671	13,763,319
NONOPERATING INCOME:		
Gain on disposition of property-net (including in 1966 provision for anticipated losses on disposition of certain propeller-driven aircraft)	1,131,985	792,468
Other	975,888	729,564
Total	2,107,873	1,522,032
Total	26,530,544	15,285,351
NONOPERATING EXPENSES:		
Interest, less $1,210,568 capitalized in 1966	4,857,848	1,858,748
Other	787,989	381,126
Total	5,645,837	2,239,874
INCOME BEFORE PROVISION FOR INCOME TAXES	20,884,707	13,045,477
PROVISION FOR INCOME TAXES (Note 5)	3,068,389	3,597,111
NET INCOME	17,816,318	9,448,366
RETAINED EARNINGS AT BEGINNING OF YEAR	29,150,706	19,997,152
Total	46,967,024	29,445,518
CASH DIVIDENDS—Per Share: 25¢ in 1966 and 5¢ in 1965, adjusted retroactively for two-for-one stock split in 1966	1,474,060	294,812
RETAINED EARNINGS AT END OF YEAR (Note 2)	$ 45,492,964	$ 29,150,706

The accompanying Notes to Financial Statements are an integral part of this statement

STATEMENT OF SOURCE & APPLICATION OF FUNDS

FOR YEARS ENDED DECEMBER 31, 1966 AND 1965 **BRANIFF AIRWAYS, INCORPORATED**

	YEAR ENDED DECEMBER 31 1966	1965
SOURCE OF FUNDS:		
Funds provided from operations:		
Net income	$ 17,816,318	$ 9,448,366
Depreciation and amortization	19,476,974	11,362,843
Deferred Federal income taxes	2,305,000	
Total	39,598,292	20,811,209
Net increase in long-term debt	153,647,754	21,505,000
TOTAL	$193,246,046	$ 42,316,209
APPLICATION OF FUNDS:		
Net additions to property and equipment	$112,860,575	$ 40,733,330
Increase in working capital	24,034,622	4,467,441
Increase (decrease) in deposits with manufacturers in connection with equipment purchase contracts	18,175,099	(5,902,256)
Funds and advance for investment in Pan American-Grace Airways, Inc.	30,000,000	
Cash dividends	1,474,060	294,812
Other—net	6,701,690	2,722,882
TOTAL	$193,246,046	$ 42,316,209

BRANIFF AIRWAYS, INCORPORATED

TRANSFER AGENTS

THE CHASE MANHATTAN BANK (NATIONAL ASSOCIATION)
REPUBLIC NATIONAL BANK OF DALLAS

REGISTRARS

MANUFACTURERS HANOVER TRUST COMPANY
FIRST NATIONAL BANK IN DALLAS

NOTES TO FINANCIAL STATEMENTS

1. In January 1967 the Company consummated the acquisition of 100% of the outstanding common stock of Pan American-Grace Airways, Inc. for $30,000,000 and that company was merged with Braniff effective January 31, 1967.

2. Long-term debt at December 31, 1966 comprised the following:

Notes payable to banks and insurance companies:	
Insurance companies (annual sinking fund payments of $4,250,000 commencing on July 1, 1972):	
5½% Notes due July 1, 1985	$ 41,775,000
5¼% Notes due July 1, 1985	18,225,000
Banks — 5% Revolving Credit Notes due July 1, 1968 and 5% Notes due June 30, 1973 (semi-annual payments of $6,000,000 commencing on December 31, 1968)	60,000,000
5¾% Subordinated Debentures due December 1, 1986 with warrants for the purchase of 480,000 shares of common stock (see Note 3) (annual sinking fund payments of $3,600,000 commencing on December 1, 1973)	60,000,000
6¼% Subordinated Notes due October 31, 1981 (annual payments of $2,500,000 commencing in 1972 on notes outstanding)	24,752,754
Total	$204,752,754

The agreements under which the notes payable to banks and insurance companies were issued and the indenture under which the debentures were issued provide, among other things, certain restrictions in respect to payment of dividends and/or acquisitions by the Company of its common stock. As a result of such provisions, unrestricted retained earnings of the Company aggregated $16,342,258 at December 31, 1966. In addition, the note and loan agreements with banks and insurance companies provide for maintaining certain minimum working capital.

3. During 1966 the Company's outstanding shares of common stock were split two-for-one and the authorized common stock was increased from 3,000,000 shares of $2.50 par value each to 10,000,000 shares of $1.25 par value each.

At December 31, 1966, 480,000 shares of the Company's unissued common stock were reserved for redemption of warrants attached to the 5¾% Subordinated Debentures issued during 1966. The warrants entitle the holders thereof to purchase such shares of common stock at $73 per share commencing January 1, 1968 to and including December 1, 1986, when the warrants expire.

4. The increase of $12,000,000 in capital surplus represents the portion of the proceeds from sale of the 5¾% Subordinated Debentures attributable to the warrants attached thereto; such amount has been treated as a deferred charge and will be amortized by charges against income over the life of the related debentures.

5. During the latter part of 1965, Greatamerica Corporation increased its holdings in the Company's common stock to more than 80%; consequently, operations of Braniff since December 1, 1965 are being included in consolidated Federal income tax returns of Greatamerica and subsidiaries resulting in estimated savings in Federal income taxes of $4,800,000 for 1966 and $500,000 for 1965. As a result of the ending of Greatamerica's tax loss carryforward, future earnings of Braniff may not benefit to the same extent as that for the year 1966.

Investment tax credit recognized in income as a reduction to Federal income taxes approximated $207,000 in 1966 and $1,470,000 in 1965. Investment tax credit available for carryforward to future years approximated $8,800,000 at December 31, 1966.

6. At December 31, 1966 the Company had commitments, including commitments of Pan American-Grace Airways, Inc. (see Note 1), to acquire additional jet aircraft, including provisioning thereof, estimated to cost $157,000,000 of which $27,235,461 had been deposited with manufacturers.

Long-term lease agreements in effect at December 31, 1966, for varying terms, require minimum annual rentals of approximately $3,200,000.

7. The Company has several pension plans covering substantially all of its domestic employees. The total pension expense for the year was approximately $1,950,000 including $164,000 as to prior service costs which are being funded over periods up to 30 years. The Company's policy is to fund pension cost accrued. The present value of vested benefits at December 31, 1966 has not been actuarially determined. As a result of amendments to the plans during 1966 the Company's cost thereunder will substantially increase in future years.

ACCOUNTANTS' OPINION

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS
1600 PACIFIC AVENUE, DALLAS 75201

Braniff Airways, Incorporated:

We have examined the balance sheet of Braniff Airways, Incorporated as of December 31, 1966, and the related statements of income and retained earnings and of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statements present fairly the financial position of the Company as of December 31, 1966 and the results of its operations and the source and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 21, 1967

Haskins & Sells

NEW BRANIFF DALLAS LOVE FIELD TERMINAL
OPENING SCHEDULED EARLY 1968

BRANIFF INTERNATIONAL'S HOSTESS COLLEGE
COMPLETION SCHEDULED DECEMBER, 1967

TROY V. POST, Chairman of Board, Member of Executive Committee
• Chairman of Board, Greatamerica Corporation, Dallas, Texas

HARDING L. LAWRENCE, President, Chairman of Executive Committee

C. EDWARD ACKER, Executive Vice President, Member of Executive Committee

R. V. CARLETON, Executive Vice President

REX BRACK, Senior Vice President

ROBERT H. BURCK, Vice President

E. GRANT FITTS, Member of Executive Committee • President, Vice Chairman of Board and
Chairman Finance Committee, Greatamerica Corporation, Dallas, Texas

W. W. HEATH • Heath and Davis, Austin, Texas

J. E. JONSSON • Honorary Chairman of Board, Texas Instruments Incorporated, Dallas, Texas

HERMAN W. LAY • Chairman of Board, PepsiCo, Inc., Dallas, Texas

GUSTAVE L. LEVY • Goldman, Sachs & Co., New York, New York

JOHN W. MECOM, SR. • Independent Oil and Gas Operator, Houston, Texas

PAUL A. PORTER • Arnold & Porter, Washington, D. C.

ROBERT H. STEWART III, Member of Executive Committee
• Chairman of Board, First National Bank in Dallas, Dallas, Texas

W. L. VOGLER • Chairman of Board and Chief Executive Officer,
American National Insurance Company, Galveston, Texas

DIRECTORS

BI

TROY V. POST, Chairman of Board
HARDING L. LAWRENCE, President and Chairman of Executive Committee
C. EDWARD ACKER, Executive Vice President-Administration and Services
R. V. CARLETON, Executive Vice President-Operations
REX BRACK, Senior Vice President-Field Marketing
JOHN W. LEER, Senior Vice President-Corporate and Marketing Planning
FRED J. BEISECKER, Vice President-Financial Services
HORACE BOLDING, Vice President-Administrative Services
E. R. BOSSANGE, JR., Vice President-Engineering and Maintenance
ROBERT H. BURCK, Vice President-Public Affairs
MALCOLM HARRISON, Vice President-Personnel Relations
WALTER M. HENSHEL, Vice President-Corporate Public Relations
FRANK C. HOBBS, Vice President-Finance and Control
DAN HUGHES, Vice President-Flight Operations
JOHN R. KERSEY, Vice President-Passenger Sales and Services Development
THOMAS B. KING, Vice President-Promotion
THOMAS J. KIRKLAND, Vice President-Miami System Operations
RAMON DE MURIAS, Vice President-International Affairs
ANDREW J. PHELAN, Vice President-Financial Services, South America
THOMAS P. ROBERTSON, Vice President - Regulatory Proceedings
CHARLES S. SOUTH, Vice President-South America
JAY M. JACKSON, Secretary and Legal Counsel
OSCAR W. CRANE, Treasurer
DENNIS G. LYONS, Assistant Secretary
VELTA BOWLWARE, Assistant Secretary
LOYD EDEN, Assistant Treasurer
THOMAS H. COULTER, Assistant Treasurer
WILLIAM F. LEWIS, Assistant Treasurer

CORPORATE OFFICERS

ROGER L. BARRIER, Staff Vice President-Profit Planning
ROBERT C. BOOTH, Staff Vice President-South America
E. M. FESSENDEN, JR., Staff Vice President-Engineering and Technical Services
O. ROLAND FROST, JR., Staff Vice President-Properties and Facilities
LOUIS J. GARCIA, Staff Vice President-Public Relations
V. A. KROPFF, Staff Vice President-Community Affairs
HARRY McKILLOP, Staff Vice President-Cargo Sales and Services Development
B. A. MINTER, Staff Vice President-Maintenance
JOHN B. OTTIKER, Staff Vice President-Customer Services, South America
L. J. PRIESTER, Staff Vice President-Schedules
J. G. SORLIE, Staff Vice President-Flight Dispatch
JOHN H. SULLIVAN, Staff Vice President-Passenger Services
JOHN A. WEINHART, Staff Vice President-Passenger Sales

STAFF VICE PRESIDENTS

NORTH AMERICA

WILLIAM J. BIRD, Regional Vice President-Eastern Region
J. ROY BROWN, Regional Vice President-Central Region
JOHN FASOLINO, Regional Vice President-Southwestern Region
RICHARD M. KIP, Regional Vice President-Mexico
HENRY D. LINDSLEY, Regional Vice President-Dallas—Ft. Worth Region

SOUTH AMERICA

CARLOS BRUNSON, Regional Vice President-Chile
CAMILO FABREGA, Regional Vice President-Panama
HARRY MARPLES, Regional Vice President-Argentina—Uruguay
JULIO QUIROGA, Regional Vice President-Bolivia
JOSE A. SALVADOR, Regional Vice President-Ecuador
JAMES T. SCHOLTZ, Regional Vice President-Peru
JUAN UCROS, Regional Vice President-Colombia

REGIONAL VICE PRESIDENTS

BRANIFF INTERNATIONAL